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Russian oil

Crisis postponed?

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America's Central Intelligence Agency has revised its estimates of Soviet oil output. It now thinks that Russia is not about to become a big oil importer after all. Four years ago, a CIA study predicted that Russia's oil production would fall sharply after 1980 and that it could be importing as much as 3.5m-4.5m barrels a day by 1985. Now it says that the Soviet Union might still be exporting oil in the mid-1980s.

The agency claims its revision is not as spectacular as it looks, but the difference is clearly an embarrassment. True, its 1977 forecast that Soviet output could decline to as little as 8m b/d by 1985 was almost immediately revised upwards. Western oil specialists never took the CIA's original forecast too seriously.

Yet, only a year ago, the then CIA director, Admiral Stansfield Turner, was still telling senators that Soviet military action to secure new energy supplies could not be ruled out. The spectre of an oil-hungry Russia anxious to grab Gulf oil was a strong theme in some of the Reagan team's foreign policy planning.

The CIA's 20% upward revision means that it is now estimating Russian production at 10m b/d by 1985, and maybe as high as 11m b/d. Output is now running at just over 12m b/d—2½% above last year's total. So the CIA is still projecting a fall in the immediate future, but it is less alarmist than before about the consequences. It says Russia is switching to alternative fuels (especially coal, nuclear power and natural gas) and showing a new interest in conservation.

Around 25% of today's 12m b/d of Russian oil is exported—half to its east European allies, half to the west and India. The east Europeans in Comecon have been told that their oil supplies will stay stuck at 1980 levels (*The Economist*, May 9th, 1981). The west could live with a cut in Soviet exports, but Russia needs the hard currency and would prefer to cut its domestic consumption and exports to Comecon.

The CIA still has a low opinion of Russian conservation efforts. It believes that the Soviet Union is at least 40% less efficient in its use of energy than the west, and that Russian planners and managers have little incentive to save oil. They may have an incentive soon. Domestic wholesale oil prices in Russia, which have been frozen since 1967, will rise by 230% early next year. That could have an effect, even on Russia's non-market economy. If domestic demand is held down more effectively than the CIA expects, there will be more Russian oil to spare for export.

Some American specialists (and the state department) also think that the CIA's 11m b/d top output estimate for 1985 is still too niggardly. The latest Soviet five-year plan projects almost 13m b/d by 1985, which would be possible with western technology to improve drilling and recovery techniques. Development of Russia's huge natural gas reserves could provide the hard currency needed to buy that technology, and hasten the switch away from excessive domestic use of oil. That is why the proposed pipeline linking a Siberian natural gas field with western Europe is so important to Russia.